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C O N F I D E N T I A L SECTION 01 OF 02 BAKU 000163

SIPDIS

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SUBJECT: AZERBAIJAN'S SOCAR INKS PSA WITH TOTAL TO
EXPLORE/DEVELOP OFFSHORE "ABSSHERON" FIELD

REF: BAKU 558 (2008)

Classified By: Pol-Econ Counselor Joel R. Garverick, Reasons 1.4 (b,d)

11. (C) SUMMARY: French Company Total has signed an Exploration and Development Production Sharing Agreement with French Company Total for Azerbaijan's offshore "Abssheron" field, thought to contain gas and condensates. Gaz De France is expected to be brought in shortly as the third partner. A previous attempt to find gas in this block by Total, Chevron and SOCAR in the late 1990s failed to find commercially viable volumes of hydrocarbons. According to SOCAR President Abdullayev, if this field 'hits,' first gas should be approximately 2016. This deal is yet another sign that Azerbaijan is eager to prove up its reserves and become a 'player' in regional and global energy markets, and that in pursuit of this goal SOCAR is seeking alliances with reputable IOCs for the development of its hydrocarbon sector.
END SUMMARY.

12. (C) In a high-profile February 27 signing ceremony at SOCAR headquarters, SOCAR President Rovnaq Abdullayev and Total Exploration and Development President Yves-Louis Darricarrere signed an Exploration, Development and Production Sharing Agreement (EDPSA) for the offshore "Abssheron" field. Under the deal Total will have a sixty percent interest of the project and will be the operator for the exploration phase, with SOCAR holding the other forty percent. This field is thought to contain gas and condensate. SOCAR and Total had signed the precursor to this PSA, a "Heads of Agreement," in June 2008 (reftel).

13. (C) SOCAR President Abdullayev explained during the ceremony that the PSA calls for Total to drill one exploratory well within the next three years, to be followed by up to two other exploratory wells if the first one is successful. Darricarrere expected this first exploratory well to cost "approximately" USD 100 million.

14. (C) In comments to the press after the signing, Darricarrere strongly hinted that Gaz De France, with SOCAR's approval, would soon be brought into the project as a third partner. When press asked why Total expected to find sufficient Abssheron hydrocarbons this time, after having come up short previously, Darricarrere said that Total knew more about the field and had a better plan on how and where to drill.

15. (C) In pre-signing speeches, both SOCAR President Rovnaq Abdullayev and Energy Minister Natiq Aliyev highlighted this signing as yet another step in Azerbaijan's development of its hydrocarbon sector in conjunction with global International Energy Companies (IOCs). Total Exploration and Development President Darricarrere cited the PSA as part of

Total's overall 'risky' global exploration strategy, and evidence of its strengthened ties with the GOAJ (COMMENT: In Azerbaijan, Total, although not a partner in the AIOC Consortium, already has a five percent share of the BTC pipeline, and a ten percent share both in the Shah Deniz field and the related South Caucasus Pipeline).

¶16. (C) BACKGROUND: In 1997, Chevron (30 percent) SOCAR (50 percent) and Total (20 percent) signed a similar Exploration and Development PSA for Absheron, but the first exploration well, drilled in 2001, revealed insufficient amounts to justify further exploration, and the agreement lapsed in ¶2003. The Absheron Block is located in the Caspian approximately one hundred kilometers east of Baku, due east of the Shah Deniz field, in depths of 500 meters. END BACKGROUND.

¶17. (C) In a February 27 meeting with DAS Matt Bryza after the signing, SOCAR President Abdullayev said that although Total has three years to do the initial exploratory work, he thinks it will take no longer than 18 months. Commercial exploitation should begin "around the time of Shah Deniz Phase Two," i.e. approximately 2016. He told Bryza that reserve estimates are 400-500 billion cubic meters, plus condensate (NOTE: for comparison purposes, Shah Deniz reserve estimates are as much as approximately one trillion cubic meters).

¶18. (C) COMMENT: BP Azerbaijan, the 800-pound gorilla of Azerbaijan's hydrocarbon sector, expected to be a part of Absheron development. That SOCAR went with Total, and quite

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possibly also Gaz De France, could well be a measure of GOAJ pique at B Azerbaijan for perceived mishandling of its AIOC and Shah Deniz operatorships. It is far too early to know whether Absheron has commercially viable gas deposits and if so how quickly they can be developed, or for that matter where would be the ultimate market for these volumes. However, this deal is yet another sign that Azerbaijan is eager to prove up its reserves and become a player in regional and global energy markets, and that in pursuit of this goal SOCAR is seeking alliances with reputable IOCs for the development of its hydrocarbon sector. Total contacts in Azerbaijan have commented to Embassy that negotiations with SOCAR were professional and surprisingly incident-free. END COMMENT.
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